

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6872

BILL NUMBER: SB 487

DATE PREPARED: Jan 14, 2002

BILL AMENDED:

SUBJECT: Assessment of Personal Property.

FISCAL ANALYST: Bob Sigalow

PHONE NUMBER: 232-9859

FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides that the assessed value for property tax purposes of: (1) personal property construction in process is ten percent of cost; and (2) special tools is the value determined under the Internal Revenue Code in effect on January 1, 2002.

Effective Date: January 1, 2002 (retroactive).

Explanation of State Expenditures:

Explanation of State Revenues: The State levies a small tax rate for State fair and State forestry. A \$2.8 B reduction in the assessed value base would reduce the property tax revenue for these two funds by about \$92,000 annually.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Construction in Process:* Under the former personal property assessment rules, *construction in process* (CIP) was assessed at 10% of cost through the March 1, 2001, assessment date. Under the new personal property assessment rules effective with the March 1, 2002, assessment date, CIP will be assessed at 87% of cost. This bill would set the assessment percentage of CIP back to 10% of cost.

According to data obtained from the Department of Local Government Finance, CIP at cost amounted to about \$3.64 B for the 1999 Pay 2000 tax year. The assessed value is \$364 M at 10% or \$3.16 B at 87%. If the level of CIP remains constant, this bill would result in an assessed value reduction of about \$2.80 B (\$3.16 B new assessment less \$364 M old assessment). This would translate into an estimated tax shift from the owners of CIP to all taxpayers in all classes of about \$53 M in CY 2003. The accompanying tax rate increase is estimated to be \$0.0184 per \$100 of assessed value.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

Special Tools: Under the former personal property assessment rules that were valid through the March 1, 2001, assessment date, *special tooling* was assessed at 30% of cost in its year of acquisition and 3% of cost in all other years. Under the new personal property assessment rules effective with the March 1, 2002, assessment date, special tooling will be assessed 42% of cost in the year of acquisition, 14% in the second year, and 2% in all other years. This bill would set the assessment percentage of special tools at the percentage in the new rule. There would be no change in special tools assessments under this proposal.

State Agencies Affected: Department of Local Government Finance (State Tax Board).

Local Agencies Affected: Local assessors.

Information Sources: Department of Local Government Finance; Local Government Database.